

July 21, 2010

CENTRAL MAINE POWER COMPANY
Request for Approval
to Modify CMP'S Service Quality Indicators By
Eliminating or Changing the Current MPUC
Complaint Ratio and to Waive Penalties

REPLY BENCH ANALYSIS

I. INTRODUCTION

On July 10, 2009, Central Maine Power Company (CMP or Company) filed a petition to modify the PUC Complaint Ratio component of its' Service Quality Indicator (SQI) mechanism which is part of its ARP 2008 rate plan. On August 27, 2009, CMP filed its direct testimony in support of its request for waiver of the SQI penalty which would be assessed against CMP in 2009 for failure to meet the PUC Complaint Ratio on the basis that the large increase in complaints to the PUC were the result of the severe recession which took effect in late 2008.¹ Through the testimony of its two witness panels, Grenier/Stinneford/Dumais/Hart and Davulis/Hart, the Company put forth its position that the economic recession had a severe impact on CMP's customers and

¹ As part of its annual ARP filing, the Company reported that its PUC Complaint Ration for 2009 was 2.47 which extended the benchmark 1.0 and resulted in the maximum penalty of \$5.0 million. The \$5.0 million penalty amount was put in to rates as part of the annual price change subject to reconciliation pending the outcome of CMP's waiver request. *Central Maine Power Company, Annual Price Change Pursuant to the Annual Rate Plan*, Docket No. 2010-51, Order Approving Stipulation (June 18, 2010).

their ability to pay their electric bill which in turn was leading to customers filing complaints with the Commission.

On March 3, 2010, the Advisory Staff (Staff) filed its initial Bench Analysis in this matter. In the Bench Analysis, the Staff stated that based on the information filed in the case to that point, it was the Staff's view that CMP's credit and collection practices in 2009 and in prior years were most likely the primary cause of the dramatic increase in customer complaints in 2009. Staff noted that while it agreed that the economic downturn that began in 2008 may have been a contributing factor to the increase in customer complaints, it was not the sole or primary cause of the increase. Specifically, Staff noted:

- That CMP's credit and collections issues predate the economic downturn;
- Changes to CMP's credit and collections policies and procedures contributed to the problem of increasing customer complaints to the CAD;
- A review of the utility data indicated that the economy had not similarly effected BHE and MPS's complaints or its customer areages; and
- The increase in complaints did also not appear to be related to CAD directives cited by CMP.

The Staff concluded that:

CMP has failed to meet its burden to demonstrate that external factors beyond its control caused the dramatic increase in customer complaints to the CAD in 2009. CMP had significant problems with high and old customer arrearages back in 2007 and was aware of these problems prior to June 2008 when it agreed to the revised PUC Complaint Ratio target. Staff shortages at CMP in 2007 and changes CMP made to its credit and collections policies and procedures in 2008 and 2009, coupled with the existing arrearage problems, were major causes of the increase in customer complaints to the CAD in 2009. For these reasons, the Staff

does not believe that CMP's request to waive the penalty provisions of ARP 2008 is justified, and thus, Staff's initial recommendation at this time would be that such request is denied.

On May 7, 2010, CMP filed its rebuttal case which consisted of the joint testimony of Grenier/Michelson/Stinneford/Hart (Part A) and of Davulis/Hart (Part B) and also the testimony of Professor Michael Donihue (Part C). In Part A of their rebuttal case, CMP's witnesses testified:

- In direct response to the recession, the CAD modified its internal guidance instructing its specialists to loosen collection practices to respond to the growing number of customers who, as a result of the recession, were having challenges paying off their utility bill balances;
- The CAD decision letters and Mr. Davidson's testimony reinforce the fact that the recession was the primary cause of the increase in customer complaints from customers, who because of the financial hardships, were having trouble paying their electric bills and as a last resort contact the CAD to avoid disconnection;
- CMP did not miss opportunities to reduce customers balances;
- CMP actively managed accounts subject to PUC regulatory constraints;
- In 2009, fewer customers were able to meet their obligation to pay;
- Maine Law and CAD rules and practices provide broad consumer protections that contributed to balance growth;
- CMP's deposit strategy in 2008 and tightening of front line discretion on payment arrangements in 2009 was not the cause of the increase in CAD complaints in 2009; and
- CMP is effectively managing accounts receivable and net charge-offs relative to other utilities.

In the Part B testimony, Davulis/Hart provide a statistical analysis which CMP claims to demonstrate that:

- The recession is the primary cause of the increase in customer complaints;
- CMP's complaint ratio has been historically very similar to that of BHE and has not been trending higher; and
- The increase in arrearages for both CMP and BHE has been caused by the economy.

In Part C of the Rebuttal, Professor Donihue validates the statistical analysis conducted by Mr. Davulis and confirms the findings by Mr. Davulis and Ms. Hart.

In this Reply Bench Analysis, the Staff responds to the points noted above. Given the complexity of the issues, and also since CMP's statistical modeling was a new analysis which was introduced into the case as part of CMP's rebuttal case, the focus of this analysis is on Part B and Part C of CMP's rebuttal case. In addition, Staff believes it is important and appropriate to respond to certain allegations contained in the CMP Rebuttal case which either misinterprets or mischaracterize Staff's statements at the technical conference or prior actions taken by the CAD.

II. RESPONSE TO THE PART B AND PART C REBUTTAL

A. Overview

This part of the Bench Analysis addresses the question of whether CMP's statistical analysis proves, as CMP claims, that the very high number of CAD complaints experienced in 2009 was virtually all due to the economic recession. We also address the question of whether the large increase in CMP complaints in 2009 could possibly be due to other factors including management practice and/or the interaction of management practices with the recession. We conclude that while it is possible that

economic conditions were related to the increase in CMP's PUC Complaint Ratio, the statistical analysis presented by CMP does not prove that the increase in complaints was caused by the economy or disprove the possibility that the other factors could have lead to the high level of complaints.

In explaining our conclusions, the following subjects are addressed:

1. ***A summary of CMP's testimony*** related to statistical analysis in which the Company asserts that complaints in 2009 have been caused by economic factors and that there has been no significant upward trend in CMP's complaint ratio in the past few years.
2. ***An analysis of CMP's 2010 complaint statistics*** which are dramatically lower than the 2009 figures, even though the economy has not improved much. The 2010 data demonstrates that something other than the economy must be causing swings in CMP's complaint ratio. We believe a simple review of the 2010 data without any sophisticated statistical analysis helps to demonstrate that CMP's position that "statistical evidence" can be used to "conclude" that the high complaint ratio was "primarily related to economic causes."
3. ***An evaluation of trends in complaints since CMP began outsourcing data in 2004.*** A basic glance at the increases in complaints without any detailed statistical analysis demonstrates that complaints have increased from a level of about .7 when CMP changed its management practice to a level somewhat more than 1.0 before the recession to 2.47 in 2009. Formal statistical analysis

confirms that since November 2003 when CMP began outsourcing of credit and collection functions, the number of complaints has had a statistically significant upward trend which has continued until this year.

4. ***A discussion of the penalty formula*** which shows that CMP would have to have experienced a complaint ratio of 1.70 or less to avoid a fine of \$5 million because of the manner in which the fine is capped. Since the actual level of complaints was 2.47, CMP would have to demonstrate that more than .77 of the complaints per customer in 2009 (2.47 minus 1.70) were due to the economic factors beyond its control in order to reduce the fine to a level which is below the cap of \$5 million.
5. ***An evaluation of the implications of using CMP data on a standalone basis*** (i.e. without BHE and/or MPS as a control group.) Our discussion on this subject considers the philosophical issue of whether one can use a regression equation that includes 2009 data to address the policy question of whether a fine should be imposed on CMP because of the 2009 complaints. Since the policy issue involves examining data for 2009 and determining how much of the 2009 complaint level was due to the economy versus how much is due to other things, we believe that a statistical analysis which includes the CMP 2009 data point cannot be used to affirmatively conclude that it was only economic conditions that caused the high level of complaints. The reason 2009 data cannot be used is because both the extreme changes in complaint statistics and the extremely weak economy mean that there is not sufficient information to differentiate economic factors from other things.

6. ***A calculation of how many complaints come from economic data versus other factors using 1998 through 2008 data.*** The 1998 through 2008 data can be used to establish a relationship between complaints and economic variables that is not distorted by the 2009 data point. This means that an equation without 2009 can in theory be used to segregate how much of the 2009 jump in complaints was caused by the economic decline. The analysis which establishes economic relationships from 1998-2008 data reveals that some of the increase in complaints was indeed due to economic factors, but that most of the change occurred for other reasons. Once the complaint data is segregated into (1) normal complaints, (2) abnormal 2009 complaints due to the economy, and (3) abnormal 2009 complaints that are not due to the economy, an adjusted complaint ratio for purposes of computing fines can be computed. This adjusted complaint ratio results in CMP incurring a fine of above the \$5 million cap.
7. ***A calculation of complaints that comes from economic factors versus other factors using BHE and MPS as a control group.*** CMP's witnesses made the point that 2009 data should be used to evaluate the issue of how many complaints come from economic conditions because the extreme conditions in 2009 reveal important economic information. Through pooling CMP data from 1998 through 2008 together with BHE and/or MPS data for 1998-2009 one can use both the 2009 economic data and at the same time isolate the CMP 2009 data point for purposes of segregating economic conditions from other factors. This approach of establishing structural relationships without the CMP 2009 data point in order to test the 2009 data is very similar to the approach used above.

As with analysis from the prior section, it reveals that the complaint ratio adjusted for economic conditions still produces a fine of above \$5 million using CMP data and regression equation structures.

In performing our analysis we have generally relied on the same data the CMP provided to us in data requests and which were used in developing their conclusions. We have done this not because we believe that CMP's choice of variables was ideal, but rather because we believe that arguments about details of using one series of data or another would tend to further confuse an already confusing subject and is not essential to the resolution of this case. For example, we do not think it is appropriate to compare one data series in terms of absolute levels – the complaint data -- with another data series that is expressed in terms of percent changes – CMP expressed income and levels of employment in this manner. In evaluating the statistical analysis we have also been able to verify the mechanics of the CMP regressions analysis, and therefore, the Staff's issues primarily involve how to interpret the statistical analysis.

We have divided the Staff's statistical analysis into two parts. The first part presented below describes the results of our analysis at a relatively high level where we concentrate on the overall conclusions without delving into the statistical details. In preparing this section we hope that most of our conclusions can be best understood by simply looking at graphs of the data rather than interpreting details like F-statistics. The second part of the analysis presents regression results and describes the mechanics of the various different regression analyses that we have completed and is contained in a technical appendix (attached as Appendix A).

B. CMP's Statistical Analysis

In the Part B Rebuttal Testimony, John Davulis and Patricia Hart wrote:

“...statistical evidence” can be used to conclude “that the majority of the increase in the CAD customer complaint ratio for CMP is primarily related to economic causes. Our analysis shows that 78% of the variation in CMP’s CAD complaint ratio, 1998-2009, is associated with economic factors.”

Mr. Davulis and Ms. Hart also used their statistical analysis to suggest that “CMP's historical complaint ratio had not been trending upward prior to the recession” and also that “there is no statistically significant difference in the complaint ratios for CMP and BHE between 1998 and 2009.”

The Part C Testimony written by Dr. Michael Donihue reached similar conclusions. For example he stated that: “[T]he increase in CMP's complaint ratio experienced during the recession of 2008-2009 can be explained by economic events within the state and at the national level...” As with the testimony of Davulis and Hart, Dr. Donihue concluded: “It also appears to be true that there is no statistically significant trend in the complaint ratio for either Central Maine Power (CMP) or Bangor Hydro Electric (BHE) prior to 2009.”

The testimony of Davilus and Hart is comprised of the following four parts:

1. Presentation of data that demonstrate the effect of the recession including the unemployment rate for the State of Maine and the change in income and employment for CMP, BHE and MPS service territories. The witnesses argue that data on the changes in income and the change in employment

demonstrates that the effect of the recession has been more severe in CMP's service territory than in BHE's service territory.

2. A series of nine regression analysis of CMP complaint data that do not include BHE data but do include the 2009 CMP information. The CMP witnesses use this regression analysis to conclude that "the recession is the cause of the increase in customer complaints." CMP's data that represents the economy includes data on the economy in Maine and defaults realized by residential consumers for the whole U.S. economy. The Maine economy is represented by two variables which are segregated by service territory – the percent change in personal income and the percent change in employment. The third data series which is the unemployment rate for the whole state of Maine is not expressed in terms of percent changes. Consumer defaults are summarized using three data series obtained from the Federal Reserve. The first, consumer defaults realized by commercial banks includes credit card defaults as well as other consumer loans and does not include defaults on home mortgages. The second uses the portion of the consumer defaults that is related to credit cards and the third is defaults on single family mortgages.

The CMP witnesses prefer a regression that uses defaults on consumer loans along with the percent change in personal income. With this equation they plugged the actual economic data into the equation that is supposed to represent the relationship between economic variables and complaints. The result of this process produces fitted values. The CMP witnesses compared these fitted values to actual values to evaluate how closely the equation confirms to actual data. The relative share of variation in the data that is captured by the fitted values is called the R-squared which implies that the relationships captured in the equation explain about 80% of the variation in complaints from year to year. CMP included a graph of the fitted values and the actual values that demonstrates the equation seems to be good at explaining complaint data.

3. In the third part of their analysis, CMP discussed nine equations that included both BHE and CMP which are called pooled regressions. These equations attempt to explain the behavior of both CMP and BHE complaints in terms of their relation to economic forces. Since the witnesses segregated personal income and employment data for the two service territories, most of the regressions directly account for differences in economic conditions experienced by the two companies. From these regressions, the witnesses concluded that "Based upon this statistical analysis, we can conclude that there is essentially no significant difference in the underlying determinants of the complaint ratios for CMP and BHE over time." They also showed that over the entire period, the average of the BHE complaints were not much different than the CMP complaints.

4. In the final part of their analysis, Mr. Davulis and Ms. Hart include arrearage data in the equations. They stated that “The statistical analysis shows the increase in arrearages and corresponding increase in complaints is directly related to economic factors for both utilities.” In discussing these regressions at the workshop, CMP acknowledged that the data contained errors. For example the complaint data was computed on an annual basis while the arrearage data was for fiscal years that end in March. Further, the arrearage data were not expressed on per customer basis as was the complaint data. We therefore, did not use this part of the analysis in our assessment.

The testimony of Dr. Donihue uses almost the same regression equations as CMP witnesses Davulis and Hart and he concludes that the “majority of the increase in the CAD customer complaint ratio for CMP is primarily related to economic causes.” Dr. Donihue does add that “for each of the nine models ... delinquency rates have a larger impact in explaining variations in CMP's complaint ratio than do personal income, employment, or the unemployment rate in CMP's service area.”

In addition to presenting the regressions that include 1998-2009 data, Dr. Donihue computes the complaints that would be predicted from a regression which establishes economic relationships without the 2009 data point. He then uses the actual 2009 data along with the equations established from the 1998-2008 data to compute the amount of complaints that would have been predicted in 2009 arising from economic conditions. The difference between the actual complaints and the predicted level for 2009 using actual economic data is called the ex post forecast error. Dr. Donihue explains that “The ex post forecast error provides an answer to the question, ‘In 2008, how well would these models have done had CMP used them to forecast the complaint ratio in 2009, knowing what we now know about the values of the explanatory variables?’ Specifically, in calculating the ex post forecast error each model was re-

estimated for the period of 1998-2008 and then used to predict the value of the CMP's complaint ratio for 2009 using the actual 2009 values for each of the explanatory variables in the model.”

C. Analysis of 2010 CMP Complaint Statistics

If CMP's statistical analysis were valid, then the estimated equations which relate complaints data to economic variables would not change much from year to year and the number of complaints should obviously be high when the economy is bad. The fundamental basis of any regression analysis is to use historic data to try to find some true underlying structure that exists – in this case to find some kind of true and stable relationship between complaints and the economy. If you compute one equation using some data and then in next year you find that a completely different equation should be used, something must be wrong with the theory and the estimated regression equation is not useful in finding the true underlying relationship. In the case of complaint data, the regression equations estimated from data that include the extremely high level of complaints in 2009 as well as the sudden changes in economic variables does a very poor job in predicting what has happened so far in 2010. The complaint data for the first half of 2010 for CMP demonstrates that the equation which includes 2009 data is not reliable in explaining the effects of economic factors on the number of complaints.

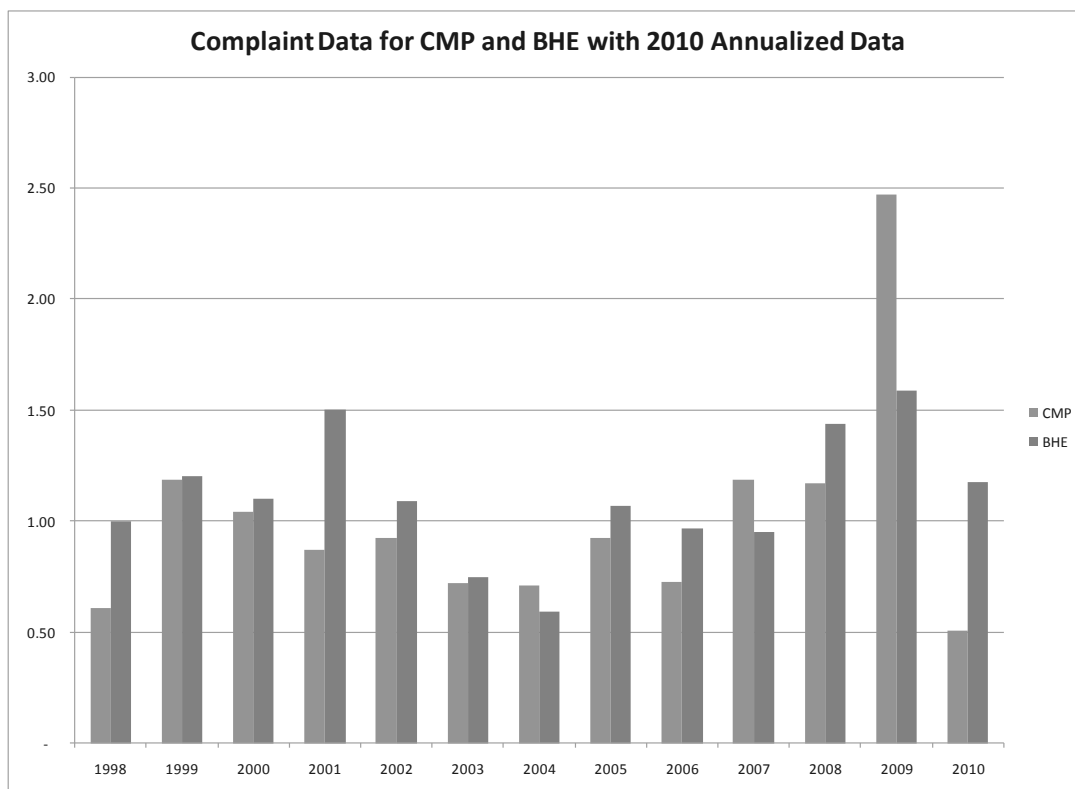
Given that the economy continues to be in a very poor state, if the level of complaints was only driven by economic conditions, then the level should be similar in 2010 to 2009. Comparing year-to-date complaints from January to July in 2009 and

2010 reveals that the decline in CMP complaints has been dramatic. The year-to-date complaint level for CMP has declined by 80% as shown on the table below.

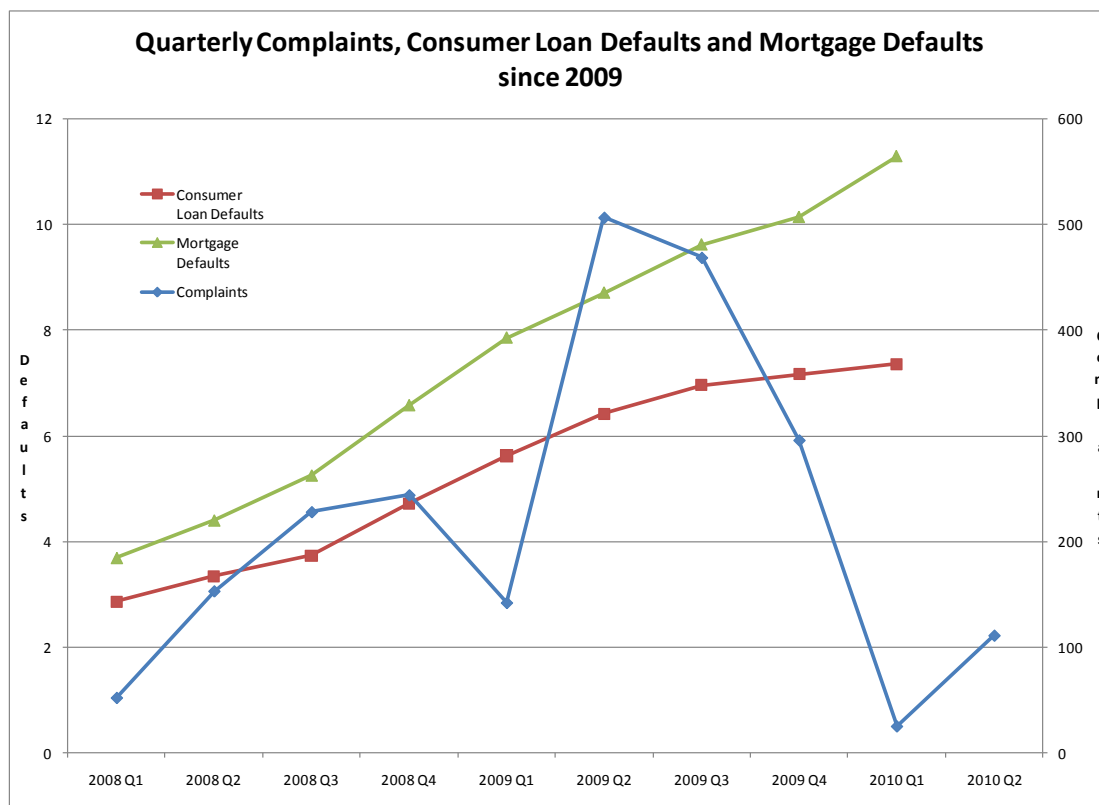
Complaints for Jan 1 through June 30		
	CMP	BHE
2009	649	100
2010	136	74
Percent Change	-79%	-26%

The graph below shows the level of CAD complaints per customer for historic years as well as the imputed annualized levels for CMP and BHE. The annualized level of complaints in 2010 for both companies is computed by multiplying the percent reduction in year to date complaints by the 2009 complaint level – for CMP this is $2.47 \times (1-.79)$ which results in a value of 0.52 on an annualized 2009 basis. The graph shows that the dramatic increase in complaints for CMP has been followed by an equally dramatic decline in 2010. On the other hand, the complaint level for BHE has been much more stable. Given that the economy has not changed in a dramatic way,² the data shows that something else – possibly management action – must be driving the big swings in the CMP complaint data. One does not have to perform any fancy statistical analysis to see that the 2010 data contradicts CMP's position that it is only the economy that is driving the changes in complaints.

² See Appendix A attached to this document.



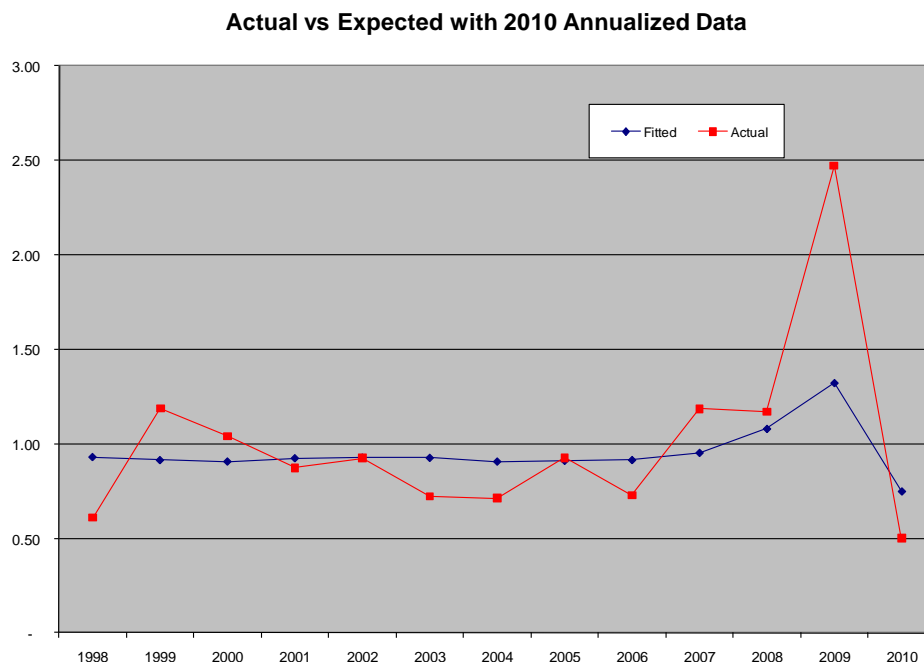
As discussed by Dr. Donihue in his testimony, the primary driver of the CMP statistical analysis is the U.S. economy wide level of defaults on loans in the residential sector of the economy (consumer loans including credit cards, single family mortgage loans or credit card loans). These defaults and the unemployment rate have remained about same levels in 2010 as existed in 2009, which implies that if CMP's conclusions were really correct, then the level of complaints should be similar in 2010 as 2009 (the data on defaults from residential consumers including the 2010 first quarter level is presented in the technical appendix.) When comparing the defaults with trends in complaints on a quarterly basis and including the 2010 data, any semblance of a relationship disappears as shown on the graph below.



To demonstrate the effects of the updated information, we have run illustrative regressions with 2010 data (the annualized data is computed by assuming that current levels will continue for the remainder of the year.) The idea of this analysis is not to estimate precise statistics (as the data is not for a full year), but to simply to demonstrate the effects of the change in 2010 complaints on a regression equation. In this vein, the results of the regression where 2010 data is included suggest that there is virtually no relationship between the complaint ratio and the economy. In the case where the statistical analysis does not include the 2010 data, regressions which used unemployment to represent economic conditions produced R-squared statistics of 76%, 75%, and 84%. When the 2010 data is included the regressions, the annualized data produced equations with much lower R-squared statistics of 19%, 35% and 13%. At a minimum, this analysis shows that the regression is very unstable and invalidates the

fundamental idea of a regression that there is some underlying true relationship that can be estimated. More importantly, the regression that includes 2010 data also contradicts CMP's conclusion that the spike in complaints was only caused by the bad economy.

As stated above, CMP presented results of a regression equation which ended in 2009 and showed that the regression equation closely fitted actual data. Using the same approach but with a regression equation that uses the unemployment rate in Maine including the 2010 illustrative data generates a very different story. The graph below shows that before the extreme swings in complaint ratios of 2009 and 2010, the fitted line from the regression equation which relates complaints to the economy is almost flat. This means that the equation from economic factors does not help much at all in explaining what happened from 1998 through 2008. For the years 2009 and 2010, the equation that tries to model complaints as a function of the economy explains some, but not very much, of the variation.



If one applies the CMP equation which is computed with 1998-2009 data to 2010 annualized data for unemployment and economy-wide loan defaults, the equation predicts that the level of complaints per thousand customers should range from 2.14 to 2.81 (this is the same thing that Dr. Donihue did in computing his “forecast error.”) Yet the forecasted level of complaints is nowhere near 2.14 and is only .52 as discussed above. This demonstrates that something other than the economy – perhaps management practice – has a dramatic effect on the level of complaints.

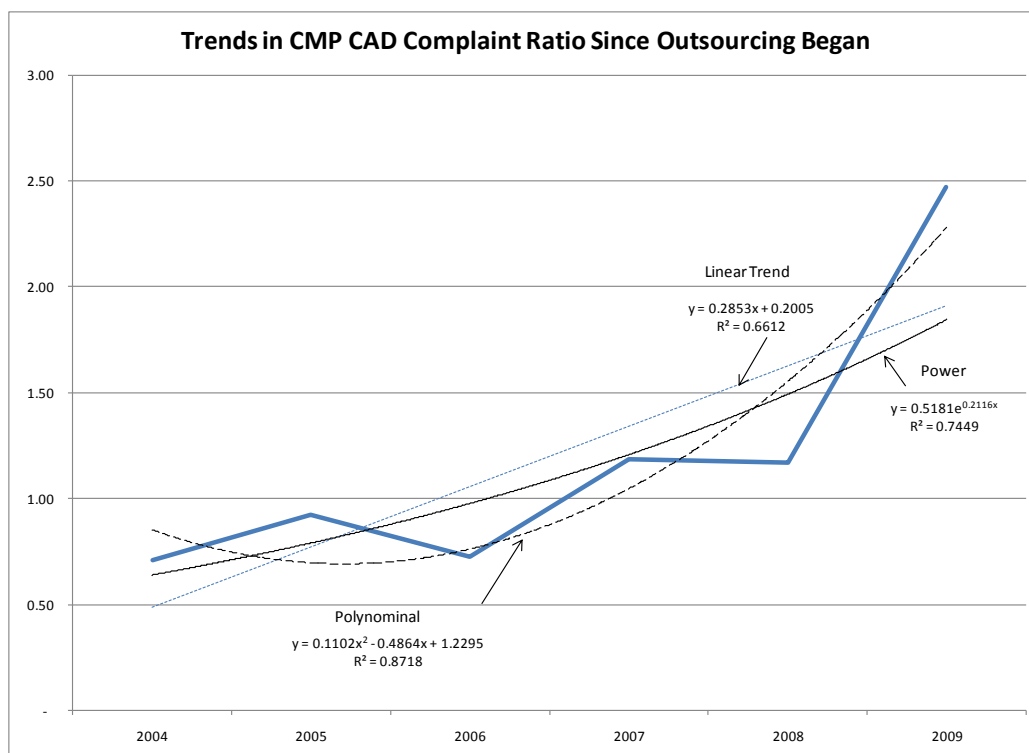
D. Trends in the Complaint Ratio

As stated above, in its Rebuttal Testimony, CMP asserted that there is no statistically significant trend in their complaints over time. If CMP was right and there were no time trend, one may be tempted to conclude that management practices did not really cause a change in complaints because there was no sudden change in management practice in 2009. In particular, the lack of a trend from the time CMP began outsourcing of its customer and collection functions in June 2003 would suggest that this change in the way accounts are managed did not have any effect on the number of complaints.

Contrary to the statements made in CMP’s direct testimony, when questioned about trends in the workshop, CMP’s witness Donihue acknowledged that there has indeed been an obvious trend since 2004. Dr. Donihue stated “... if I looked 2004 to 2008, I’d say, well, maybe there’s an increasing trend there.” (Transcript, page 10) A little later he testified that “...it’s definitely the case that if I were going to put down a ruler from 2003 or 2004 through 2008, the line of best fit would be upward

sloping.” (Transcript, page 14) Finally, Dr. Donihue described how one could test for whether a trend is statistically significant: “I would run a simple regression against time or a sequential variable and just ask whether or not that line I just drew was statistically different from zero.” (Transcript, page 15) We have used this process to create a regression analysis of the complaint data against a simple time counter.

In following Dr. Donihue’s suggestions, we have examined three different trend patterns in the CMP complaint data. The three methods include (1) a simple linear trend which increases in the same proportion each time period; (2) a power function which increases in a curved manner over time; and (3) a quadratic trend which measures the complaints as a function of the time period and also the square of the time period. Each of these approaches confirms the fairly obvious fact of a statistically significant time trend as shown on the graph below. In particular the R-squared statistics confirm that much of the variation in the complaint ratio over time can be explained by a simple time variable.



We recognize that the 2010 statistics are not consistent with this trend. As stated earlier in this report, the number of customer complaints to the CAD, on a year-to-date basis, has decreased dramatically in 2010 in comparison to recent years. This trend change can be explained by the increased emphasis CMP placed on collections in 2009, evidenced by the credit and collection policies implemented in late 2008 and 2009 by CMP, which addressed many of the customer accounts that had been delinquent for extended periods of time prior to 2009. If payment troubled customers are not addressed in a timely manner, the number of payment troubled customers will cumulatively increase over time as new customers experience payment troubles. Staff believes that CMP attempted to address the ever-growing number of its customers having payment troubles in 2009. Because CMP had not been proactively addressing these problems, they not only had to address customers experiencing payment troubles in 2009, but they also had to address the customers that had experienced payment troubles in years prior and that were still not current on their bills. Once CMP addressed this very large group of customers, it is now able, in 2010, to address primarily new customers experiencing payment troubles.

E. Problems with Using the 2009 Data Point for CMP in Assessing How Much of the Complaint Ratio Comes from Economy

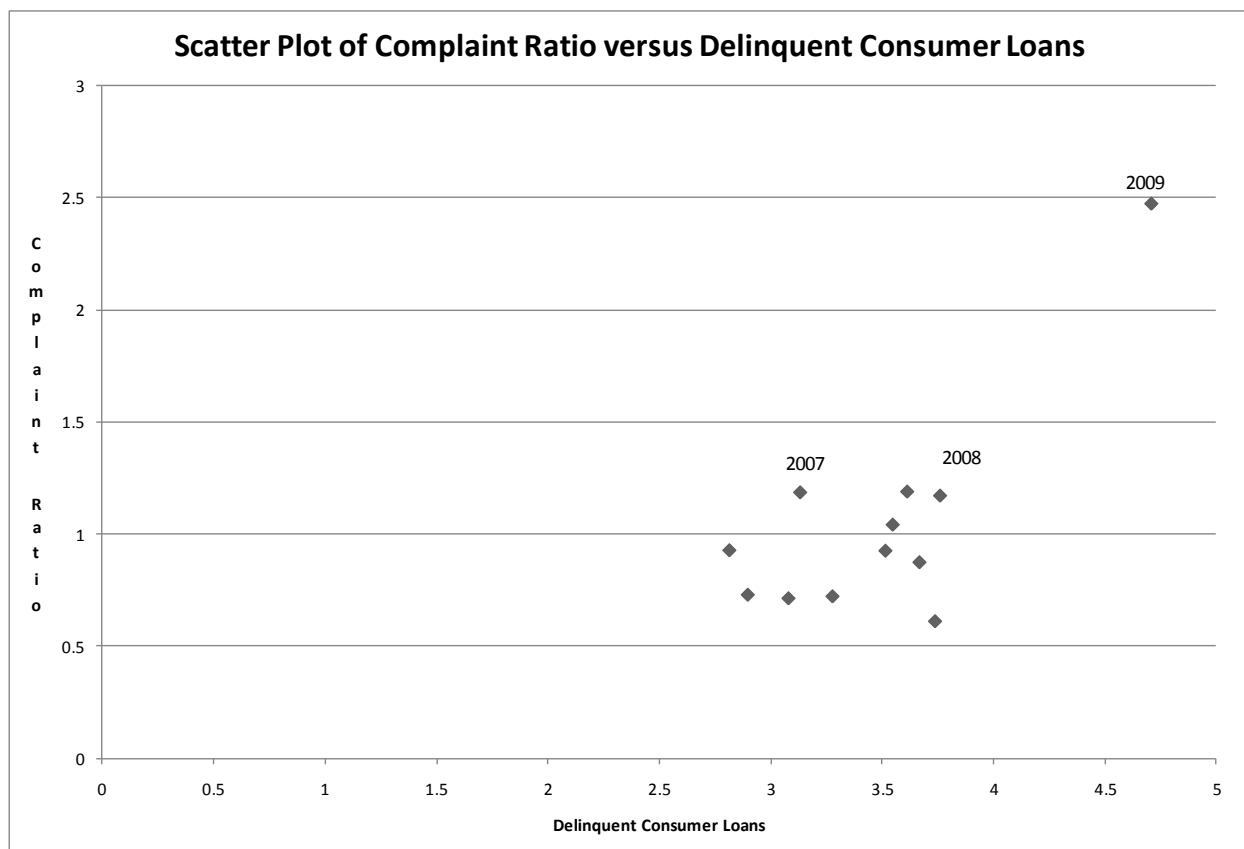
One of the main problems with CMP's analysis is the way in which the Company included the CMP 2009 data point in establishing the regression equations and then concluded that the regressions proved that the 2009 complaint values were due to the economy and essentially nothing else. We suggest that an analysis in which CMP 2009 data is used to establish economic relationships and does not include BHE or MPS data cannot lead to the conclusion that the economy was the only thing that

drove the very high level of complaints in 2009 since the assumption essentially defines the answer. In the paragraphs below we show that the relationships between the economy and complaints reflected in the regression equations are driven by the single 2009 data point and because of this, there is no way to ferret out how much of the 2009 customer complaint level is due to economic conditions and how much is due to other factors, which is the central question in this case. The problem with using a single data point to separate the management practice effect from the economy effect is that the extreme nature of both the CMP complaint data and the economic indicators means that the all of the effects of the change in complaints are grabbed by the economy variables in a regression analysis. Where the 2009 CMP data point is included in a regression equation, there is no control group to test whether something other than the economy is causing the change in complaints. In sum, CMP's regression analysis essentially is all based on the one single data point and this data point is the subject of the central question in this case.

The following hypothetical is helpful to illustrate problems with the use of one data point in this type of policy analysis. We want to find out whether the opening of a McDonald's restaurant in a small town in Alaska in 2009 has caused an increase in heart attacks. Assume that there was a spike in heart attacks in 2009 at the same time both the economy fell into a deep recession. If we only used the data for the single town in isolation in attempting to assess the heart attack question, defenders of McDonald's could make the argument that it is the bad economy that caused the heart attacks. The problem is that by relating the increased heart attacks to the economic factors, there is no control group to test whether something other than the economy

could be causing the heart attacks. This is the same problem with CMP using 2009 in regression equations and then concluding that economic conditions in 2009 is the reason for the increases in complaints.

The reason CMP's regression analysis boils down to one single data point can be demonstrated by scatter plots which relate complaints to the various economic data. If the regression did not only depend on only the 2009 data point, then one should be able to make out a clear upward or downward relationship in the data without the 2009 value. However, as demonstrated in the graph below which relates consumer defaults to complaint data, the data does not reveal any clear pattern or trend without the 2009 extreme data point. The only real way to see a significant trend is to use the 2009 data point.



Scatter plots of variables other than delinquent consumer loans are presented in the Technical Appendix. Each of the scatter plots is very similar to the graph above, where one would have a tough time seeing any trend without the extreme change in the complaints and the extreme change in economic variables.

There are a few different ways to demonstrate that an equation with only CMP data that includes the period from 1998 to 2009 is completely driven by the 2009 data point and that the data points prior to 2009 are almost meaningless in equation. First, the R-squared statistics are much lower for the equations that exclude 2009 from the equation than those that do include the 2009 data as shown on the table below. Second, the estimated coefficients change by a large magnitude when comparing

regressions with and without the 2009 data point (a comparison of the coefficients is included in the technical appendix). Third, many of the equations that CMP presented over the period 1998-2008 without the 2009 data point had a negative adjusted R-squared (the adjusted R-squared statistics are presented in the Technical Appendix). The equations with negative adjusted R-squared imply that the economic variables did not explain any of the variation in complaints without the 2009 data. In a similar vein as with the change in the regressions when 2010 data is added to the equation, given the most basic assumption of regression analysis that there is some stable underlying equation, the dramatic change in equations with and without the 2009 data point demonstrates that something is wrong.

Table 1

		R-Squared with 2009	R-Squared without 2009	Ratio of R- Squared: With 2009/Without 2009
Regression 1	Consumer Loans/Pct Chg in Income	82.52%	42.71%	1.93
Regression 2	Credit Cards/Pct Chg in Income	80.66%	31.35%	2.57
Regression 3	Mortgages/Pct Chg in Income	85.67%	36.80%	2.33
Regression 4	Consumer Loans/Pct Chg Employment	72.90%	5.00%	14.57
Regression 5	Credit Cards/Pct Chg in Employment	70.71%	4.12%	17.16
Regression 6	Mortgages/Pct Chg in Employment	84.28%	30.11%	2.80
Regression 7	Consumer Loans/Level of Unemployment	75.73%	5.13%	14.75
Regression 8	Credit Cards/Level of Unemployment	74.94%	4.41%	16.98
Regression 9	Mortgages/Level of Unemployment	84.39%	37.67%	2.24

F. Penalty Formula in CMP's ARP

1. Overview

The above sections point out the problems with CMP's analysis from the standpoint of proving that virtually all of the increase in complaints was the result of economic conditions. The remainder of the Bench Analysis deals with how to

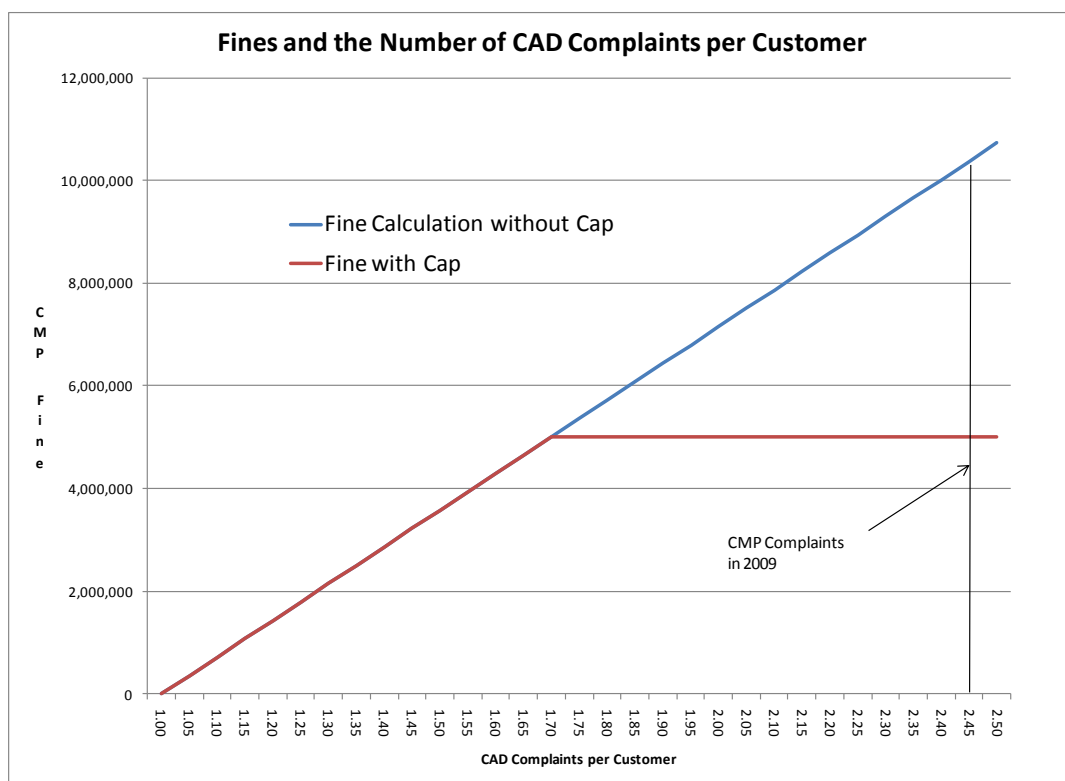
quantify how much of the 2009 complaint level is due to the economy and how much is due to other factors. Once the amount of complaint data that is not explained by the abnormal conditions is identified, an adjusted complaint ratio can be computed. This adjusted complaint ratio which can be used as the basis of computing fines is illustrated by the following formula:

$$\text{Adjusted 2009 Complaint Ratio} = \frac{\text{Actual 2009 Complaint Ratio} - \text{Complaint Ratio Explained by Economy}}{\text{Complaint Ratio Explained by Economy}}$$

To illustrate the way this equation works, assume the amount of complaints that can be explained by the economy is .60. Then the adjusted complaint ratio that could be used in computing fines would be 1.87 (2.47 - .60). Next, the 1.87 would be used in the formula for fines which subtracts the actual complaint level from a baseline of 1.0 and then multiplies this amount by 14.33. After this factor is determined, the penalty score is multiplied by a dollar amount of \$500,000. If the amount of the fine exceeds \$5 million the fine is capped at \$5 million. In this example where the adjusted complaint level is determined to be 1.87, a fine of \$5 million would be the result regardless of whether the 2.47 level of complaints were used or whether a complaint level of 1.87 were used.

To see how the penalty works we have graphed the level of the fine with and without a cap against the level of complaints. The graph demonstrates that if the level of complaints exceeds 1.0 per thousand customers (or about four complaints per day) then a penalty is imposed on CMP. This penalty increases with a higher deviation between the 1.0 benchmark and the actual amount of complaints that exceed

1.0. At a complaint per customer of 1.70, the fine reaches a cap of \$5 million. Once the level of complaints is above 1.70, it does not make any difference for calculation of the fine how much higher the level of complaints are – the fine is the same whether the complaints are 1.71 or 2.47.



2. Computation of Fines Using CMP Equation Ending in 2008 without BHE or MPS

When using the outlying data point of 2009 in a regression, there is a self-fulfilling prophecy that the big increase in complaints is driven by the dramatic change in economic conditions. To rectify this problem, one can use data from 1998 through 2008 to establish a control equation for the relation between complaints and economic conditions. Then one could use the economic relationships established without the extreme 2009 data point to test how much of the 2009 change can be

explained by economic conditions and how much was due to other factors. In turn, the amount of variation that is not due to economic conditions in 2009 can be used to compute the penalty resulting from exceeding the benchmark level of complaints. As discussed above, CMP's witness Donihue has performed an analysis which is similar to this in which 1998-2008 data was used to compute the amount of complaints that would be expected without using the 2009 point which distorts the analysis. When the 2009 data point is removed from the CMP equation and 1998 through 2008 data is used to create a control group, the analysis suggests that most of the increase in complaints from 2008 to 2009 did not come from changes in economic conditions.

Mechanics of computing this analysis can be demonstrated using a couple of numbers presented by Dr. Donihue. His analysis implies that out of the level of 2.47 complaints in 2009, only between .086 and .746 of those complaints are due to economic conditions. The range between .086 and .746 value results from differences in the way regression equations produce estimated relationships between the economy and the level of complaints. The low value of .086 (rounded up to .09 on the second table below) comes from the regression titled CMP8 in Dr. Donihue's testimony. In this instance the forecast error is 1.47. If the forecast error is 1.47 then the amount of complaints predicted from economic conditions must have been 1.0, calculated as the actual 2.47 level of 2009 complaints less the 1.47 forecast error. To find an adjusted level of complaints for use in a penalty formula, the average level of complaints for the 1998 through 2008 was .916. This should be added to the forecast error resulting in an adjusted complaint ratio of 2.386 as shown on the table below. This arithmetic implies that the amount explained by the economy in 2009 relative to economic conditions that

existed in the past was 1.0 minus .916 or .086. Similar calculations can be made for the .744 number which comes from regression CMP3R. Here the expected complaints given 2009 economic conditions are 1.66 and the adjusted level of complaints for purposes of computing the fine is 1.726 as shown on the table below.

Table 3

	CMP 8	CMP 3
Forecast Error in Dohihue Testimony	1.470	0.810
Actual Complaints	2.472	2.472
Actual vs Expected	1.002	1.662
Average Complaints 1998-2008	0.916	0.916
Explained by Economy in 2009	0.086	0.746
Complaints in 2009 not due to Economy for use in fine	2.386	1.726

Adding the average level of complaints not explained by economic conditions in 2009 to the typical or normal level of complaints experienced before 2009 results in an adjusted complaint to customer ratio that ranges between 1.72 and 2.39 as shown in the table below (see the column titled "Total Level of Complaints Not Explained by Economy in 2009.") For each of the nine different regressions, this would result in a fine of \$ 5 million because the level of 1.70 complaints per customer which is the lowest amount that results in a fine of \$ 5 million is exceeded. The range of complaints from alternative equations that is adjusted for economic conditions in 2009 would result in fines without a cap that range from \$ 5.17 million and \$ 9.91 million (without any adjustment for economic conditions, the fine would be \$ 10.5 million.)

Table 4

	Level of Complaints Given Economic Conditions from 1998 to 2008	Expected Level of Complaints Given Economic Conditions in 2009	Extra Level of Complaints Explained by 2009 Economic Conditions	Total Level of Complaints Actually Experienced	Above Normal Level of Complaints Not Explained by Economy	Total Level of Complaints Not Explained by Economy in 2009	Points of Penalty from (Actual - Base)/Base x Factor	Penalty from the Level of Complaints Not Explained by Economic Conditions
Regression 1	0.916	1.56	0.64	2.47	0.91	1.83	11.88	5,939,828
Regression 2	0.916	1.47	0.56	2.47	1.00	1.92	13.11	6,553,932
Regression 3	0.916	1.66	0.75	2.47	0.81	1.72	10.35	5,174,515
Regression 4	0.916	1.12	0.20	2.47	1.36	2.27	18.21	9,102,998
Regression 5	0.916	1.07	0.15	2.47	1.40	2.32	18.87	9,436,746
Regression 6	0.916	1.60	0.68	2.47	0.87	1.79	11.26	5,632,363
Regression 7	0.916	1.04	0.12	2.47	1.44	2.35	19.35	9,673,978
Regression 8	0.916	1.00	0.09	2.47	1.47	2.39	19.82	9,910,362
Regression 9	0.916	1.43	0.51	2.47	1.05	1.96	13.75	6,876,812

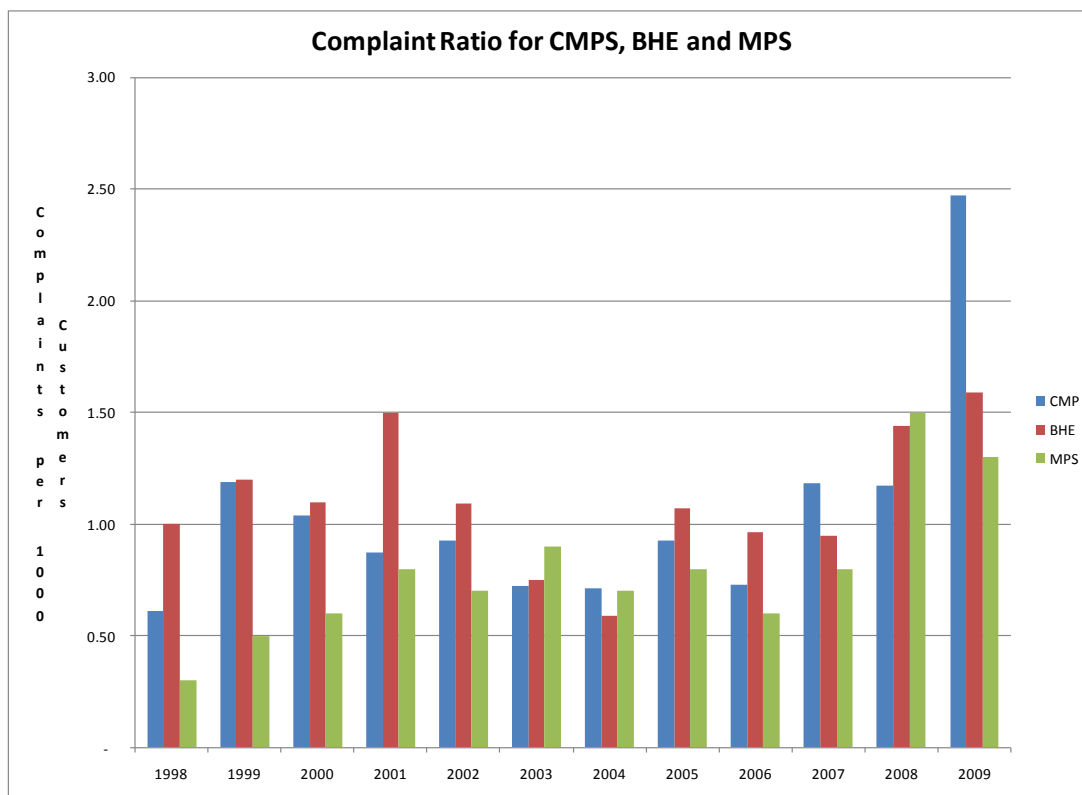
3. Computation of Fines Using Equations That Include BHE and MPS

In the technical conference, CMP witnesses asserted that the type of analysis described above which does not include the 2009 data point in the regression equation is inappropriate because 2009 data is valuable information. They suggest that the structure of economic equations which are derived from data that do not use the 2009 data point are not as accurate in estimating economic relationships as those that to include the data point. To accommodate this concern, BHE and MPS data can be used to establish a control group. The advantage of using BHE and/or MPS is that relationships between complaints and economic variables do include 2009 data in the analysis and at the same time the relationships are not distorted by the extreme data point for CMP. Using a similar analysis to the analysis discussed above where complaints explained by 2009 economic data are removed from the basis for computing fines demonstrates that CMP would still experience a fine of \$ 5 million.

The importance of using BHE and MPS data can be illustrated through revisiting the McDonald's and heart attack example introduced above. If data on heart attacks for towns in Alaska other than the town with the new McDonald's were

obtained, then one could focus on whether the McDonald's restaurant or the economy caused the increase in heart attacks. For example, if increases in heart attacks were just as high in towns without a new McDonald's, then one could have more confidence that it was the economy rather than McDonald's that was causing the increase in heart attacks. On the other hand, if the heart attacks were not much different in other towns, then one may conclude that it may be the McDonald's that is creating the problem.

The graph below presents complaint per customer data for the three Maine electric companies. As with other graphs, it is fairly apparent to see that something is different in 2009 for CMP relative to the other companies. While there may have been some differences between the way the recession affected ratepayers in CMP's service territory from the way in which other service territories were affected, the whole nation and state has been affected by the economy.



In computing the estimated number of complaints that is not related to the extreme 2009 economic conditions using pooled data, we have developed two analyses. In the first analysis we have estimated economic relationships using 1998-2008 data for CMP along with 1998-2009 data for BHE. In the second analysis, we have established the economic relationships using 1998-2008 data for CMP and 1998-2009 data for both BHE and MPS. CMP compiled data that put the BHE data together with the CMP data for the period 1998 through 2009. In our analysis, this data is adjusted so that it excludes the extreme data point for CMP in 2009. We believe the use of both CMP and BHE in establishing economic relationships is valid in part because CMP witnesses asserted that the regression analysis confirms that economic factors have a similar effect on BHE as they have on CMP. Further, in many of the regressions, differences between BHE and CMP for 2009 were explicitly considered In

particular, the change in real income and the change in employment were separated by service territory which means that differences in the way the 2009 recession affected the two companies is incorporated in the regression equations.

As shown in Table 5, in computing the level of complaints that would have been expected for CMP given the 2009 economic data and the relationships from all BHE and CMP, the fine would range from \$ 6.43 million to \$ 7.27 million without a cap as shown in the table below which has the same structure as the table presented in the prior section that only included CMP.

Table 5

	Level of Complaints Given Economic Conditions from 1998 to 2008	Expected Level of Complaints Given Economic Conditions in 2009	Extra Level of Complaints Explained by 2009 Economic Conditions	Total Level of Complaints Actually Experienced	Above Normal Level of Complaints Not Explained by Economy	Total Level of Complaints Not Explained by Economy in 2009	Penalty Points from Formula with Baseline and Factor	Penalties from Applying the Number of Points to the Formula
Regression 1	0.916	1.39	0.47	2.47	1.08	2.00	14.28	7,137,927
Regression 2	0.916	1.41	0.50	2.47	1.06	1.98	13.95	6,973,022
Regression 3	0.916	1.49	0.57	2.47	0.98	1.90	12.85	6,427,299
Regression 4	0.916	1.40	0.48	2.47	1.08	1.99	14.20	7,101,104
Regression 5	0.916	1.38	0.46	2.47	1.10	2.01	14.47	7,232,740
Regression 6	0.916	1.48	0.57	2.47	0.99	1.91	12.94	6,471,755
Regression 7	0.916	1.37	0.46	2.47	1.10	2.02	14.54	7,272,008
Regression 8	0.916	1.38	0.46	2.47	1.10	2.01	14.49	7,245,985
Regression 9	0.916	1.43	0.52	2.47	1.04	1.96	13.68	6,840,078
Min	0.916	1.372	0.455	2.472	0.983	1.899	12.855	6,427,299
Max	0.916	1.490	0.573	2.472	1.101	2.017	14.544	7,272,008

The final analysis we developed to compute the level of complaints in 2009 that removes the effect of the recession is a set of equations that includes both BHE and MPS in establishing economic relationships. To develop the equations, we used economic data presented by CMP in their testimony with respect to MPS and we included the level of the complaints per customer for MPS. When the MPS data is added to the analysis to establish economic relationships, the implied penalties range from \$ 6.43 million to \$ 7.272 million without the cap.

Table 6

	Level of Complaints Given Economic Conditions from 1998 to 2008	Expected Level of Complaints Given Economic Conditions in 2009	Extra Level of Complaints Explained by 2009 Economic Conditions	Total Level of Complaints Actually Experienced	Above Normal Level of Complaints Not Explained by Economy	Total Level of Complaints Not Explained by Economy in 2009	Penalty Points from Formula with Baseline and Factor	Penalties from Applying the Number of Points to the Formula
Regression 1	0.916	1.39	0.47	2.47	1.08	2.00	14.28	7,137,927
Regression 2	0.916	1.41	0.50	2.47	1.06	1.98	13.95	6,973,022
Regression 3	0.916	1.49	0.57	2.47	0.98	1.90	12.85	6,427,299
Regression 4	0.916	1.40	0.48	2.47	1.08	1.99	14.20	7,101,104
Regression 5	0.916	1.38	0.46	2.47	1.10	2.01	14.47	7,232,740
Regression 6	0.916	1.48	0.57	2.47	0.99	1.91	12.94	6,471,755
Regression 7	0.916	1.37	0.46	2.47	1.10	2.02	14.54	7,272,008
Regression 8	0.916	1.38	0.46	2.47	1.10	2.01	14.49	7,245,985
Regression 9	0.916	1.43	0.52	2.47	1.04	1.96	13.68	6,840,078
Min	0.916	1.372	0.455	2.472	0.983	1.899	12.855	6,427,299
Max	0.916	1.490	0.573	2.472	1.101	2.017	14.544	7,272,008

III. RESPONSE TO THE PART A REBUTTAL

A. CAD Policy Directives and Procedures

On pages 2 and 3 of Part A CMP's rebuttal testimony, CMP quoting from a CAD issued internal guidance to its Specialists regarding extended payment arrangements on January 9, 2009, and citing the phrase "these are not normal circumstances" from the guidance claims that the CAD "recognized the recession had created anything but normal circumstances and, in direct response to those changed circumstances, issued a new internal guidance to address the unprecedented economic events that resulted in a growing number of customers who are unable to pay their bills and were contacting the CAD."

The policy clarification issued on January 9, 2009, does not mention the "recession," nor does it mention "unprecedented economic events," as reasons for issuing the policy clarification. The statement's reference to "not normal circumstances" referred to the extremely high balances of customers who were in arrears. While the poor economy is likely a factor contributing to customer arrearages, it was not the primary reason for the policy clarification by the CAD. The primary reason for the policy

clarification was to ensure consistency amongst the Specialists regarding the establishment of reasonable payment arrangements for customers with large arrears balances.

Similar to the clarification above, Staff also wishes to clarify a statement CMP made in Part A of its Rebuttal Testimony on page 5 that "...as a result of the recession, circumstances changed significantly, which required the CAD to provide additional instructions to its specialists faced with the growing number of customers who were financially challenged and could not pay their bills." The guidance to which CMP is referring to is language that was added to both the CAD's Guidelines for Establishing Payment Arrangements and the CAD's Decision Tree. The language provides guidance to the Specialists regarding what constitutes an "extenuating circumstance" that would require the CAD to take a complaint and examine a payment arrangement that the CAD had established through a decision issued in a previous complaint. Normally, the CAD will not take a second complaint from a customer regarding the same issue that was addressed in a previous decision. However, the CAD will take a second complaint from a customer when there has been a significant change in the customer's financial circumstances.

The primary reason for the guidance clarification referenced by CMP was to address confusion among CAD staff regarding the meaning of "significant change." While the recession may or may not have been a contributing factor for a customer contacting the CAD seeking a new payment arrangement, the intent of the policy guidance was to ensure consistency among CAD staff regarding when to take a complaint from a customer seeking a new payment arrangement in situations where the

CAD had previously issued a decision regarding the existing arrangement. This point is further demonstrated by the fact that both of these policies have been in effect since 2004 and the guidance issued by the CAD in 2009 sought simply to *clarify* the intent of the existing guidance, not to change it.

Staff also wishes to clarify a statement CMP made on page 6 of Part A of its Rebuttal testimony regarding statements made by Derek Davidson at the technical conference on April 8, 2010. CMP states that "...when questioned about the success of various assistance programs for financially challenged customers, Mr. Davidson also acknowledged the growing challenges facing customers *as a result of the recession*. (emphasis added) CMP then includes the following excerpt from the transcript:

MR. DAVIDSON: It -- it -- I don't -- it typically won't solve it. I think what -- what customers need to do is, there's sort of needs to be a multifaceted approach. You know, not only do they need assistance, they also need to reduce their usage. They also need to make some lifestyle changes often times. And then sometimes they literally can't afford to live where they're living. And so, you know, there's got to be a choice made there. I mean, it's -- it's --

MR. FARBER: Have you seen more of that this year, or in the last couple of years? Obviously there's more compliance.

MR. DAVIDSON: I don't know if it's more people who literally can't afford to live where they are living, or it's just that because of the economy they are struggling more. I'm not sure.

A review of the excerpt provided by CMP, as well as the transcript depicting the discussion that occurred both before and after the excerpt, shows that Mr. Davidson did not conclude that the recession was the cause of people being unable to afford to live where they were and when specifically asked by CMP counsel if the CAD was seeing more customers unable to afford living where they were, this year or in the last couple of years, Mr. Davidson stated that he did not know. This was CMP's interpretation of the statements made by Mr. Davidson.

Staff is not saying here that the economy did not contribute to the number of payment troubled customers seeking assistance from the CAD in 2009, nor that the economy did not contribute to the magnitude of the problem for customers seeking assistance from the CAD. What Staff is saying is that Mr. Davidson did not conclude that the recession caused the significant increase in customer complaints to the CAD in 2009.

Finally, on page 13 of Part A of CMP's Rebuttal Testimony, CMP states that in 2009, the number of disconnections increased 12.5%, while complaints about disconnection rose 74%. CMP further states that the number of cases in which CAD found CMP in *non-compliance* was unchanged and that this meant that customers were having greater difficulty paying the amount needed to keep service in 2009 as compared to 2008. (emphasis added) Staff is not clear what CMP means when it states that "...the number of cases in which CAD found CMP in *non-compliance* was unchanged..." The CAD does not typically make findings of compliance in its decisions, especially in cases involving payment arrangements. In light of this, it is not

surprising that the number of cases in which the CAD found CMP in non-compliance was unchanged from 2008 to 2009 because it typically does not make such findings.

In contrast to CMP's statements, the disparity between the increase in the percentage of customers disconnected from 2008 to 2009 (12.5%) and the increase in number of complaints filed with the CAD from customers under the threat of disconnection (74%), shows that the percentage of customers complaining to the CAD about disconnection increased significantly more between 2008 and 2009 than percentage of customers in a disconnection situation. This indicates that the number of customers not satisfied with their interaction with CMP increased more between 2008 and 2008, and thus sought assistance from the CAD, than the increase in the number of customers in a disconnection situation. This again tends to demonstrate that CMP's policies and procedures, and not the economy, was most likely the primary driver of the increase in customer complaints to the CAD in 2009.

B. Missed Opportunity to Manage Accounts Receivable and Individual Customer Balances

CMP disagrees with the assertion that its collection practices caused customer delinquent balances to grow over time to unmanageable levels. Rather, CMP argues that the previous testimony in the Bench Analysis "failed to evaluate" external factors, such as the Chapter 815 rule and its predecessor, PUC/CAD policies and CAD practices subsequent to the date of the complaint. On page 8 of Part A of CMP's Rebuttal Testimony, CMP states that Mr. Gay is wrong in his assertion that CMP's collection practices caused balances to grow over time to unmanageable levels and that Mr. Gay failed to evaluate whether 1) Chapter 815 of the Commission's rules, or its

predecessor, 2) PUC/CAD policies, and 3) CAD practices once it receives a complaint, all contributed to the number of unmanageable accounts.

CMP is correct in its statement that Mr. Gay failed to evaluate the Commission's rules and CAD policies and procedures as causes of the number of unmanageable accounts and ultimately the high number of complaints received by the CAD against CMP in 2009. Staff did not ask Mr. Gay to review these factors because Staff did not see a need to analyze these factors. Chapter 815 took effect on April 16, 2008 and its predecessors, Chapters 81 and 86, have been in effect since at least 1988. Due to the length of time that CMP, as well as all other electric and gas transmission and distribution utilities have been operating under these rules, there is no reason to suspect that the rules would cause a spike in complaints in 2009 and not have a similar affect on the number of complaints received during previous years. Further, the CAD did not make any changes to the criteria under which it would accept a complaint from a customer in 2009, other than to clarify the intent of existing policies. Consequently, there is no reason that CAD policies and procedures, which have been consistent regarding the conditions under which it would accept a complaint from a customer for many years, would cause the spike in complaints in 2009. For these reasons, Staff did not ask Mr. Gay to evaluate the impact of these factors on the number of complaints received against CMP by the CAD in 2009.

Appendix 1 to the March 3, 2010 Bench Analysis showed that nearly all of the CMP accounts had high delinquent balances at the time of the CAD complaint. In fact, 738 of the accounts had an average balance due of nearly \$3,700, representing an equivalent of about 19 months worth of past-due balances per account. Highly

delinquent residential accounts such as noted above and in the Bench Analysis generally result from inefficiencies and gaps in a utility company's account management practices. Commission rules, practices and other external factors including economic conditions can add a level of complexity, but every utility must manage the financial risk associated with aging past-due balances. Over time, CMP's failure to limit payment arrangements and perform timely disconnections for non-payment, allowed many delinquent account balances to grow to unmanageable levels.

In an effort to demonstrate how CMP missed an opportunity to better manage its customer accounts, 64 accounts were randomly selected and provided to CMP. Subsequently, 16 accounts were selected from the 64 accounts and provided to further demonstrate how the CMP could have been more effective in managing delinquent accounts earlier in the collection cycle. In its rebuttal testimony (Part A, pages 9-10) CMP disputes the assertion that it failed to perform timely disconnections on the 16 accounts. In addition, CMP states that "because more payment arrangements were offered than the bare minimum required by rule does not mean that CMP missed opportunities." In Table 7 (Part A, page 10), CMP supports its position by showing that 9 of the 16 accounts "were disconnected at least once from August 2006 to December 2008." CMP's disconnection activity, however, was insufficient and often too late to control past due balances. CMP's rebuttal testimony failed to show that the 16 residential accounts had an average balance due of \$7,113 at the time of the CAD complaint, representing an equivalent (estimated) of about 36 months worth of past-due balances per account. In fact, two accounts had past due balances greater than

\$23,000, representing an equivalent (estimated) of more than 10 years worth of past-due balances per account at the time of the CAD complaint.

Table 7 below shows a more detailed history of CMP's collection practices during 2007-2009, including the number of payment arrangements, disconnection notices, disconnections and percentage increase in balances. During 2007-2009, CMP sent out an average of 20 disconnection notices per account. In addition, the Company allowed the same customers to re-negotiate numerous payment arrangements after breaking previous agreements, averaging 8 payment arrangements per account during 2007-2009. Despite many accounts being eligible for disconnection, 44% of the accounts were not disconnected at all in the time period before the CAD complaint. As a result, balances increased an average of 366%. Clearly, CMP had the opportunity to better manage many of these accounts by and limiting payment arrangements and performing timely disconnections in the years before the CAD complaint.

Table 7

CMP CAD Complaints-2009**Payment Arrangements, Broken Promises, Disconnection Letters, Disconnections & Increasing Balances**

<u>Account</u>	<u>Total # of Disconnection Notices 2007-2009</u>	<u>Total # of Pmt.Plans 2007- 2009</u>	<u>Total # of Disconnections 2007-2009</u>	<u>Approx. bal. of Acct @ 1st Pmt. Plan 2007</u>	<u>Acct. bal. @ CAD complaint date in 2009</u>	<u>Percentage increase in balance due</u>
02110465235002	26	5	1	\$348	\$1,411	305%
05511118439001	19	11	0	\$641	\$1,838	187%
05510271766020	23	11	1	\$416	\$1,912	359%
04430078236016	19	10	0	\$1,086	\$2,872	165%
05510183768041	23	20	0	\$983	\$2,103	114%
04430161866035	10	7	3	\$460	\$2,796	508%
05510230363012	23	6	1	\$1,108	\$2,728	146%
02110322152017	18	10	2	\$271	\$2,198	713%
02250119184020	19	8	0	\$833	\$2,294	175%
05240336647002	31	10	2	\$488	\$3,632	644%
05140139310015	22	6	0	\$7,010	\$17,610	151%
02210218401016	17	10	0	\$6,735	\$23,916	255%
02310227773016	20	4	0	\$16,140	\$25,911	61%
05350183938001	18	2	3	\$4,424	\$6,554	48%
05511118299008	12	5	1	\$587	\$10,550	1698%
04460084822012	21	8	0	\$1,297	\$5,477	322%
Total	321	133	14	\$42,827	\$113,802	366%
Average	20	8	1	\$2,677	\$7,113	

In its rebuttal testimony, CMP states that it “actively managed the accounts of those filing complaints in 2009 by sending multiple disconnect notices over the last several years” (Part A, page 11, lines 15-17). The Company stated further that “of the 738 high balance accounts analyzed by Mr. Gay...over 50% of these accounts were disconnected at least once between August 2006 and December 2008, while 37% of all accounts that filed a CAD complaint about a disputed payment arrangement or a disconnection had been disconnected prior to 2009” (Part A, page 11, lines 19-20 and page 12, lines 1-2). CMP’s analysis is summarized in Table 9 (Part A, page 12) of its rebuttal testimony. CMP recognized that the table contains errors and corrected and

updated this table on May 24, 2010. However, the data continues to require clarification. Specifically, in the updated table, CMP shows 27.8% unique accounts (of the total 1286 CAD Complaints) were disconnected between August 2006 and December 2008. By totaling the overall disconnections over the entire time period, CMP overstates its actual collection performance in a given year.

Table 8 below shows the number of CAD Complaint accounts which were active in each year (i.e., 2006-2008). For example, in 2006, only 533 of the 1,267 accounts (2009 CAD complaints) were active and available for collection treatment, including disconnection. In 2006, CMP disconnected 47 of these accounts, which represents only 9% of the total. Similarly, CMP disconnected only 21% and 22% of the available accounts in 2007 and 2008, respectively. Of the accounts CMP disconnected in 2008, the average balance due at the time of the CAD Complaint was \$3,118. Table 8 also shows the number of accounts which were not disconnected by the Company, but may have been eligible for disconnection in the years before the CAD Complaint based on the high past-due balances. Of the 794 accounts CMP did not disconnect in 2008, the average balance due at the time of the CAD Complaint was \$2,308.

CMP's analysis summarized in Table 10 (Part A, page 12) of its rebuttal testimony was also inaccurate and CMP also corrected errors and updated this table on May 24, 2010, but again the data continues to require clarification. Specifically, in the updated table, CMP shows 34.4% unique accounts (of the total 738 CAD Complaints in 2009 with balances due greater than \$1,500) were disconnected between August 2006 and December 2008. By totaling the overall disconnections over the entire time period, CMP overstates its actual collection performance in a given year.

Table 8

CMP CAD Complaints-2009**All Disputed Payment Arrangements and Disconnection Complaints****Total # of Complaints 1267**

	<u>Total Accounts Active During Year</u>	<u>Actual number of Disconnections</u>	<u>Percentage Disconnected</u>	<u>Number Accounts Not Disconnected</u>
2006	533	47	9%	486
2007	698	144	21%	554
2008	1,014	220	22%	794

Average Balance at time
of CAD complaint: *

\$3,118

\$2,308

Notes:

1) Data from August 2006 to 2008

2) Based on 1,267 accounts due to 19 accounts with 2 complaints in 2009

3) Average balance due shown is on accounts active in 2008 only.

Table 9 below shows the number of CAD Complaint accounts which were active in each year (i.e., 2006-2008). For example, in 2006, 319 of the 738 accounts (i.e., 2009 CAD complaints with balances due greater than \$1,500) were active and available for collection treatment, including disconnection. In 2006, CMP disconnected 37 of these accounts, which represents only 12% of the total. Similarly, CMP disconnected only 25% and 26% of the available accounts in 2007 and 2008, respectively. Of the accounts CMP disconnected in 2008, the average balance due at the time of the CAD Complaint was \$4,053. Table 9 also shows the number of accounts which were not disconnected by the Company, but may have been eligible for disconnection in the years before the CAD Complaint based on the high past-due

balances. Of the 444 accounts CMP did not disconnect in 2008, the average balance due at the time of the CAD Complaint was \$3,569.

Table 9

CMP CAD Complaints-2009**Accounts with Balance >\$1500 at the Time of the CAD Complaint**

Total # of Complaints 738

	<u>Total Accounts Active During Year</u>	<u>Actual number of Disconnections</u>	<u>Percentage Disconnected</u>	<u>Number Accounts Not Disconnected</u>
2006	319	37	12%	282
2007	416	102	25%	314
2008	596	152	26%	444

Average Balance at time
of CAD complaint: *

\$4,053

\$3,569

Notes:

1) Data from August 2006 to 2008

2) Average balance due shown is on accounts active in 2008 only.

The above analysis confirms the conclusions reached in Staff's earlier Bench Analysis that during the years leading to 2009, CMP's residential customer account balances reached high and many cases unmanageable levels and can be seen as a prime cause of the increase in complaints in 2009.

IV. CONCLUSION

Based on the above-referenced analysis, as well as the Staff's initial Bench Analysis and the information collected to date in the case, it would still be position at this point in the case that the economic downturn in 2009 was not the primary cause of the

dramatic increase in customer complaints in 2009. Specifically, the statistical analysis provided by CMP does not prove that the economy was the central cause of the increase in complaints nor does it disprove the possibility that the increase was a result of CMP's credit and collection practices and policies. To the extent that an increase in complaints were a direct result of the economy, CMP has not demonstrated that the economic impact would have lowered the complaint level by an amount sufficient to avoid the maximum penalty of \$5.0 million which is reached when the Complaint Ratio reaches 1.7 complaints per 1,000 customers.

Dated at Hallowell, Maine, this 21st day of July, 2010.

Charles Cohen, Senior Staff Attorney

On Behalf of the Advisory Staff:

Derek Davidson, Director CAD

Bruce Gay, Consultant

Ed Bodmer, Consultant